

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Chinle Unified School District No. 24

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
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DEPUTY AUDITOR GENERAL

November 20, 2007

Governing Board
Chinle Unified School District No. 24
P.O. Box 587
Chinle, AZ 86503

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Assistant Superintendent for Business & Finance in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Chinle Unified School District No. 24 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$56.3 million it received in fiscal year (FY) 2006 to provide this education.

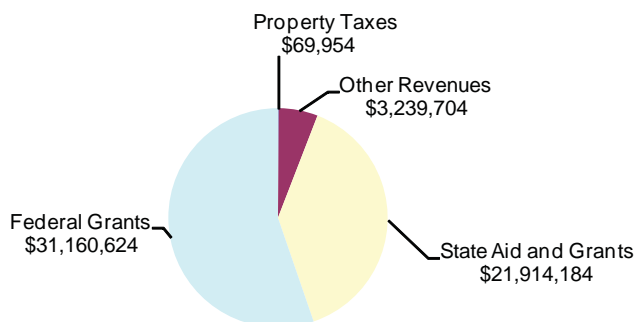
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Apache
Number of Schools: 8

Number of Students: 3,561
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Chinle Unified School District No. 24 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006.*

The District should strengthen controls over student activities and auxiliary operations monies

Auxiliary operations and student activities monies may have been stolen or misused.

The District holds student activities monies raised through students' efforts for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not always deposit student activities and auxiliary operations monies in a timely manner, or intact. As a result, the District's auditors indicated that it appeared that \$3,665 of auxiliary operations and \$115 of student activities monies had not been deposited. Additionally, for several student activities deposits, auditors noted that it appeared the total amount listed on the cash collection report had been altered, and money had been taken from the cash collected and then repaid prior to the receipts being deposited. Also, the District did not retain copies of checks, prenumbered cash receipts, cash register tapes, or a count of items on hand before and after a sale to support auxiliary operations or student activities receipts. Finally, the District had four inactive student clubs open during FY 2006.

Recommendations

To strengthen cash controls over student activities and auxiliary operations monies, the District should:

- Ensure that cash receipt forms, tickets, inventory counts, or cash register tapes are prepared and retained to document auxiliary operations cash collected. Cash receipt forms and tickets should be prenumbered and issued sequentially.
- Prepare cash collection reports to document auxiliary operations and student activities sales and reconcile cash collected to receipt forms, tickets, or items sold. Investigate and resolve any differences noted. For student activities events where it is not practical to determine the items sold, such as bake sales, clubs should still prepare a cash collection report to document cash collected.
- Deposit cash receipts daily, if significant, or at least weekly and maintain supporting documentation. Additionally, monies should be deposited intact without making any disbursement or withholding any amounts from the cash received.
- Close inactive student club accounts and transfer any remaining balances to the student council.

The District should improve competitive purchasing practices

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. Following these requirements helps districts ensure they receive the best possible value for the public monies they spend. However, the District did not follow competitive purchasing requirements and the USFR guidelines. Specifically, the District did not document an analysis of the known requirements for an item or a collection of items that, in the aggregate, would require the purchase through the use of competitive purchasing. As a result, the District did not always obtain oral price quotations for purchases costing between \$5,000 and \$15,000, and in some cases obtained only oral or written price quotations for purchases that should have been procured through competitive sealed bids or proposals. Further, the District did not always retain adequate documentation to support its competitive purchasing procedures, including documentation of the reason for using requests for proposals (RFP) rather than invitations for bids (IFB), the time and date vendor proposals were received, and the basis for awarding contracts to single and multiple vendors. Finally, the District did not perform due diligence procedures for purchases made through a purchasing cooperative and did not obtain governing board approval for purchases made under General Services Administration (GSA) contracts.

The District did not follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Analyze the known requirements of an item or a collection of items that, in the aggregate, would result in the purchase of the item or items through the use of oral or written price quotations or formal competitive sealed bids or proposals.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Before issuing an RFP, obtain a written determination from the Governing Board that issuing an IFB is either not practicable or not advantageous to the District.
- Maintain documentation of all IFBs or RFPs received, including time- and date-stamped envelopes or packaging.

School District
Procurement Rules
provide the requirements
for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

- Prepare documentation such as bid tabulation worksheets to determine the appropriate vendor for a contract award. Award contracts procured through IFBs to the lowest responsive and responsible bidder. If the contracts are awarded to multiple vendors based on the same IFB, document the reasons for the multiple awards, such as volume of items needed or based on specific information included in the IFB allowing separate purchase of items from the lowest vendors for each item.
- To determine whether purchasing requirements and guidelines were followed, review documentation from each purchasing cooperative for at least a sample of the contracts that the District wishes to use, and document the due diligence procedures performed.
- Obtain governing board approval, including a written determination that all required criteria listed in Arizona Revised Statute §15-213(J) are met for a GSA contract, before authorizing purchases under the contract.

The District should strengthen controls over expenditures

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its expenditures are appropriate, adequately supported, and within available district resources. However, the District did not have adequate controls over expenditure processing. Specifically,

The District's lack of credit card policies and documentation for purchases made with credit cards left district monies susceptible to theft or misuse.

the District did not always prepare purchase orders before ordering goods or services and did not always confirm that adequate cash was available in cash-controlled funds before authorizing purchases. As a result, the District had a deficit fund balance in the Deficiencies

Correction Fund of over \$65,000 at June 30, 2006. Additionally, the District did not maintain formal, written governing board policies for the use of credit cards, and did not always retain receipts and other documentation to support that credit card purchases were made by authorized employees and only for appropriate district purposes.

The District used JTED monies to supplant other monies for vocational education.

The District also maintained a balance in the Maintenance and Operations (M&O) Fund revolving bank account of more than twice the authorized amount of \$10,000, and did not always retain supporting documentation for disbursements from the account. Finally, based on a comparison of the District's per-pupil vocational education expenditures from FY 2006 and the year prior to the District joining a Joint Technological Education District (JTED), it appears that the District inappropriately used monies received from a JTED to replace non-JTED monies used for vocational education.

Recommendations

To help strengthen controls over district expenditures, the District should:

- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures from those funds.
- Ensure that authorized personnel approve purchase orders before ordering goods and services.
- Establish formal, written policies governing the use of credit cards by authorized employees including dollar limits for purchases and the types of purchases that may be made.
- Retain supporting documentation, including credit card receipts indicating the employee making the purchase and receipts detailing the items purchased, for all credit card purchases.
- Maintain the M&O Fund revolving bank account on an imprest basis so that the total of the unreimbursed payments from the account and the account balance is always equal to the authorized balance, not to exceed \$10,000.
- Retain documentation, including approved check requests and vendor invoices or receipts for all revolving account disbursements. Such documentation should be reviewed to ensure that all purchases were for appropriate district purposes and used to properly classify expenditures recorded when the revolving account is reimbursed.
- Ensure monies received from a JTED are used to enhance vocational education programs. Specifically, member districts are required to use JTED monies to supplement rather than supplant vocational education courses provided in their base year (i.e., the year before joining a JTED).

The District should improve controls over its capital assets

The District has invested a significant amount of money in its capital assets. In order to protect its investment, the District should have complete and accurate lists of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. Specifically, the District did not include all applicable assets on its stewardship list, and items included on the list could not always be located on the District's premises. Additionally, the District's stewardship list did not include acquisition dates. Further, the District did not retain documentation to support additions to construction

District assets were not adequately insured and were, therefore, vulnerable to loss or theft.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

in progress or to support whether the project was completed by June 30, 2006. Finally, the District did not maintain sufficient insurance coverage for its capital assets, as the District was only insured for \$118 million, although the capital assets included on its lists were valued at approximately \$140 million.

Recommendations

To improve controls over its capital assets the District should:

- Review insurance levels and ensure that adequate insurance coverage is maintained for the replacement cost of all capital assets.
- Maintain a stewardship list that includes all equipment, with a cost of \$1,000 or more but less than \$5,000. The District's stewardship list should include the item's description, identification number (tag number), location for the item, and the month and year of acquisition.
- Update the capital assets and stewardship lists at least annually for items acquired, disposed of, or moved.
- Document the accumulation of all costs incurred during the construction period in the construction in progress asset account. Such costs may include architectural and engineering fees; costs of materials, supplies, and labor; temporary buildings used for construction offices and the storage of materials and tools; permits, licenses, and fees; premiums for workers' compensation and casualty insurance; and easements.
- Reclassify costs accumulated in the construction in progress account to the proper category on the capital assets list after the project is completed. In addition, retain documentation, such as purchase orders, receiving reports, and vendor invoices, to support an asset's cost recorded on the capital assets list.

The District should maintain and report accurate student attendance information

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, membership reported to ADE was not accurate, as entry and withdrawal dates reported for students did not always agree to dates recorded on the students' entry and withdrawal forms. Additionally, students withdrawn, including some students with ten consecutive

The District's records were not adequate to support the membership and attendance information reported to ADE.

unexcused absences, were included in membership beyond their last day of attendance. Further, the District did not retain documentation to support when entries and withdrawals were entered into the computerized attendance system.

The District also reported absences that did not always agree to those recorded in teachers' registers and failed to maintain completed attendance registers to support amounts entered into the computerized system. Additionally, the District did not always properly calculate high school students' absences and partial-day absences for first through eighth grade students. Finally, the District did not correctly allocate absences between district classes and JTED classes taught on district premises.

Recommendations

To ensure that its student attendance records are accurate and support amounts reported to ADE, the District should:

- Prepare and retain accurately completed entry and withdrawal forms.
- Maintain accurate absence records and include students with ten consecutive unexcused absences in membership only through the last day of attendance. Students may be withdrawn in the District's computerized attendance system as of the first day of nonattendance only if the system excludes the withdrawal date from the total membership count.
- Record student entries and withdrawals in its computerized attendance system within 5 working days and document the date that each student entry or withdrawal is entered into its computerized attendance system.
- Have a second employee verify that entry and withdrawal dates recorded in the District's computerized attendance system agree with the entry and withdrawal forms and teachers' attendance records.
- Ensure that absences recorded in its computerized attendance system agree to supporting documentation, such as teachers' attendance registers. Additionally, teacher registers or other supporting documentation noting the absences, such as absence slips, should be retained.
- Calculate absences for students enrolled in first through eighth grades, where attendance is based on half days, so that students in attendance for less than one-half the day are counted as absent for one full day; students in attendance for at least one-half day, but less than three-quarters of a day, are counted as absent for one-half day; and students in attendance for at least three-quarters of a day are counted in attendance for a full day.

- Record absences for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*.
- Separately calculate and report absences for JTED classes taught in a facility owned or operated by the District (satellite). Report satellite classes' absences under the appropriate school number for the JTED satellite program.

The District should improve the accuracy of its financial information

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective. For example, the District did not record federal E-rate grant transactions in accordance with the USFR Chart of Accounts and processed a journal entry that recorded expenditures in the wrong fiscal year. Additionally, the expenditures reported on the District's annual financial report (AFR) for several funds did not agree to the District's accounting records.

Recommendations

To help ensure that the financial information recorded and reported by the District is accurate, the District should:

- Record all transactions in accordance with the USFR Chart of Accounts (§III).
- Record E-rate transactions, including revenue and expenditures for the payments made on the District's behalf through the E-rate grant, as described in USFR Memorandum No. 161.
- Have a second district employee verify the amounts reported on the AFR before submitting it to ADE.
- During the 60-day encumbrance period following June 30, maintain separate accounting records of each fund simultaneously for the prior and current fiscal year and record revenues and expenditures of the prior and current fiscal year in the appropriate set of records. At the end of the 60-day encumbrance period, the prior fiscal year's accounting records should be closed.